

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Elk Rapids District library	County Antrim
Fiscal Year End February 28, 2007	Opinion Date July 10, 2007	Date Audit Report Submitted to State July 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

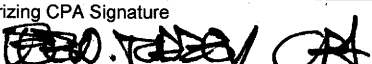
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.		Telephone Number (231) 946-2300	
Street Address 928 S. Garfield Ave., Suite 3		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Lee W. Torrey, C.P.A.	License Number A259355	

ELK RAPIDS DISTRICT LIBRARY
ELK RAPIDS, MICHIGAN
AUDITED FINANCIAL STATEMENTS
FEBRUARY 28, 2007

ELK RAPIDS DISTRICT LIBRARY

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INDEPENDENT AUDITOR'S REPORT

July 10, 2007

Board of Directors
Elk Rapids District Library
Elk Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of Elk Rapids District Library as of and for the year ended February 28, 2007, which collectively comprise Elk Rapids District Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Elk Rapids District Library management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Elk Rapids District Library as of February 28, 2007 and the respective changes in financial position, and respective budgetary comparison for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT *Continued*

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

KNOX, VAN DERWALT & TORREY, P.C.

Certified Public Accountants

ELK RAPIDS DISTRICT LIBRARY
LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR MARCH 2006-FEBRUARY 2007

The MD & A is intended to serve as an overview analysis
of the financial condition and operating results of the library.

Please direct your questions regarding this report to:

Anna LaRue, Library Director
Elk Rapids District Library
300 Isle of Pines, P. O. Box 337
Elk Rapids, Michigan 49629
(231) 264-9979

ELK RAPIDS DISTRICT LIBRARY
MANAGEMENT DISCUSSION AND ANALYSIS FY 2006-7

Relationship of Financial Statements

The basic financial statements contained herein include information that presents two different views of the Library using the modified-accrual and full accrual methods.

The individual fund balance sheet/statement of net assets and liabilities and the individual fund statement of revenue, expenditures and changes in fund balance include information about the Library's General Fund under the modified-accrual method.

The modified-accrual method focuses on current financial resources. The full accrual method focuses on long-term economic resources and presents a statement of not only how services were financed in the short term, but also what remains for future spending. Under the former system, capital outlay is an expense. Under the latter system, capital outlay is capitalized as an asset, resulting in a statement of more net profit.

The Library as a Whole

The Library's net revenue increased by \$11,174 over the previous fiscal year compared to and increase of \$10,089 last year. The Library's primary source of revenue is provided from the millage of .045 mills assessed from the Library District. The millage provided approximately 82% of the year's revenue compared to 80% last year. Other major sources of revenue included penal fines, interest, general donations and State Aid which provided about 17% of the yearly revenue; all other sources provided approximately 1%. The Library remained eligible for State Aid this fiscal year due to our millage revenue increasing our income enough to meet State Aid requirements.

Salaries and benefits account for approximately 48% of the budget for a total of \$110,495. This was an increase of 3% over the previous year.

The largest non-salary related expenditures were for books, periodicals, and tapes in the amount of \$28,248 or 12% of the budget and about the same dollar amount as last year (\$28,955). There were no major building or facilities repairs or upgrade expenditures this year.

The Library Funds

The Library uses a General Fund to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library.

The Library also has a separate Building Improvement Fund which is designated for special projects.

The Library's Budgetary Highlights

The Library Board of Trustees voted to reduce the District Wide Millage Rate by 11%, from .045 to .040 and still maintain a responsible fund reserve for contingencies.

Capital Asset Investments

At the end of the fiscal year, the Library had \$510,562 invested in furniture, equipment, books, and audio-visual materials. The Library has a long-term lease with the Village of Elk Rapids for use of the library building, with annual lease payments of one dollar.

Next Year's Anticipated Budget Factors

There is some possibility of a reduction in or elimination of State Aid funding next year. There has also been some discussion of increasing our programs in the future which will require additional funding.

Unless unanticipated expense items occur the Library Board may once again be able to reduce the millage.

**ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF NET ASSETS
FEBRUARY 28, 2007**

ASSETS

Current Assets

Cash and cash equivalents	\$ 208,150
Prepaid expenses	1,263
Total Current Assets	<u>\$ 209,413</u>

Noncurrent Assets

Capital assets	\$ 930,704
Less: Accumulated depreciation and amortization	(420,142)
Total Noncurrent Assets	<u>\$ 510,562</u>

Total Assets	<u>\$ 719,975</u>
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LIABILITIES

Current Liabilities

Accounts payable	\$ 1,057
Accrued salaries and wages	1,278
Accrued compensated absences	2,823
Total Current Liabilities	<u>\$ 5,158</u>

NET ASSETS

Invested in capital assets	\$ 510,562
Restricted for:	
Building improvements	4,581
Unrestricted	<u>199,674</u>
Total Net Assets	<u><u>\$ 714,817</u></u>

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
Functions/Programs				Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Library services	\$ 198,351	\$ 7,197	\$ 10,781	\$ (180,373)
General Revenues:				
Intergovernmental:				
Property taxes levied for general purposes				\$ 187,691
State aid				4,095
Penal fines				16,198
Interest Income				8,887
Miscellaneous				64
Loss on disposition of assets				(6,358)
Total General Revenues				<u>\$ 210,577</u>
Change in Net Assets				\$ 30,204
Net assets - beginning of year				<u>684,613</u>
Net Assets - End of Year				<u>\$ 714,817</u>

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY
BALANCE SHEET
GOVERNMENTAL FUNDS
FEBRUARY 28, 2007**

	General Fund	Building Improvement Fund	Totals Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 199,377	\$ 8,773	\$ 208,150
Due from Building Improvement Fund	4,192	-	4,192
Prepaid expenses	1,263	-	1,263
Total Assets	<u>\$ 204,832</u>	<u>\$ 8,773</u>	<u>\$ 213,605</u>
<u>Liabilities and Equity</u>			
Liabilities			
Accounts payable	\$ 1,057	\$ -	\$ 1,057
Due to General Fund	-	4,192	4,192
Accrued salaries and wages	1,278	-	1,278
Accrued compensated absences	2,823	-	2,823
Total Liabilities	<u>\$ 5,158</u>	<u>\$ 4,192</u>	<u>\$ 9,350</u>
Fund Balance			
Reserved for public improvements	\$ -	\$ 4,581	\$ 4,581
Reserved for Board purposes	5,000	-	5,000
Unreserved	194,674	-	194,674
Total fund equity	<u>\$ 199,674</u>	<u>\$ 4,581</u>	<u>\$ 204,255</u>
Total Liabilities and Fund Equity	<u>\$ 204,832</u>	<u>\$ 8,773</u>	<u>\$ 213,605</u>

The accompanying notes are an integral part of these financial statements.

**ELK RAPIDS DISTRICT LIBRARY
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

Fund Balance - Total governmental funds	\$ 204,255
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the General Fund:

Governmental capital assets	\$ 930,704	
Less: accumulated depreciation	<u>(420,142)</u>	<u>510,562</u>

Net Assets - Governmental Activities	<u><u>\$ 714,817</u></u>
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The accompanying notes are an integral part of these financial statements.

ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2007
(Page 1 of 2)

<u>Revenues</u>	<u>General Fund</u>	<u>Building Improvement Fund</u>	<u>Total Governmental Funds</u>
Intergovernmental			
Elk Rapids Township	\$ 82,749	\$ -	\$ 82,749
Milton Township	104,941	-	104,941
State Aid	4,095	-	4,095
Penal Fines	16,198	-	16,198
Contract Fees - Torch Lake Township	3,500	-	3,500
Book Fines	1,627	-	1,627
Replacement card	108	-	108
Copier Fees	523	-	523
Interest - bank account	8,698	189	8,887
ILL Fees	136	-	136
Donations	10,193	588	10,781
Note cards	30	-	30
Non-resident Fees	454	-	454
Miscellaneous Income	64	-	64
Book Purchase/Replacement	819	-	819
Total Revenues	<u>\$ 234,135</u>	<u>\$ 777</u>	<u>\$ 234,912</u>

<u>Expenditures</u>			
Supplies			
Library	\$ 1,778	\$ -	\$ 1,778
Office	2,281	-	2,281
Cleaning	738	-	738
Other	3	-	3
Books and Audio Tapes	17,834	-	17,834
Rental Books and Tapes	5,234	-	5,234
Video Tapes	1,152	-	1,152
Periodicals	4,028	-	4,028
Insurance:			-
General	3,082	-	3,082
Workers Comp	382	-	382
Utilities:			-
Water	462	-	462
Natural Gas	2,310	-	2,310
Telephone	1,737	-	1,737
Internet	1,100	-	1,100

The accompanying notes are an integral part of these financial statements.

ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2007
(Page 2 of 2)

<u>Expenditures (continued)</u>	<u>General Fund</u>	<u>Building Improvements Fund</u>	<u>Total Governmental Funds</u>
Accounting and Legal	3,870	-	3,870
Contracts/MMLL	2,553	-	2,553
Technical Support	3,700	-	3,700
Postage	1,311	-	1,311
Printing:			-
Publicity	168	-	168
Other	-	-	-
Programs:			-
Childrens Reading	645	-	645
Volunteers	162	-	162
Board of Trustees	606	-	606
Adults	415	-	415
Mileage	57	-	57
Maintenance:			-
Building Facilities	7,956	-	7,956
Xerox	1,011	-	1,011
Capital Outlay:			-
Technology	252	-	252
Furniture	1,949	-	1,949
Other	401	-	401
Education	35	-	35
Payroll:			-
FICA	5,870	-	5,870
Medicare	1,373	-	1,373
Gross	95,357	-	95,357
Pension	1,935	-	1,935
Health Insurance	6,636	-	6,636
Miscellaneous	398	-	398
Bank Charges	-	75	75
Total Expenditures	<u>\$ 178,781</u>	<u>\$ 75</u>	<u>\$ 178,856</u>
<u>Excess (Deficiency) Revenue Over Expenditures</u>	\$ 55,354	\$ 702	\$ 56,056
Fund Balance - Beginning of Period	<u>144,320</u>	<u>3,879</u>	<u>148,199</u>
<u>Fund Balance - End of Period</u>	<u>\$ 199,674</u>	<u>\$ 4,581</u>	<u>\$ 204,255</u>

The accompanying notes are an integral part of these financial statements.

ELK RAPIDS DISTRICT LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2007

Net change in fund balances - total governmental funds \$ 56,056

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets
is depreciated over their estimated useful lives.

Expenditures for resource collection	\$ 17,566	
Less: current year depreciation and amortization	<u>(37,059)</u>	(19,493)

Losses on dispositions of capital assets are not reported in the governmental funds		<u>(6,359)</u>
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Change in net assets of governmental activities	<u><u>\$ 30,204</u></u>
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The accompanying notes are an integral part of these financial statements.

ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Elk Rapids District Library (the Library) was organized during 1939. The Library serves primarily the residents of the Village of Elk Rapids, Elk Rapids Township, Milton Township and Torch Lake Township, Michigan. The Library operates under an appointed Board of Directors consisting of eight members.

The criteria established for determining the various governmental organizations to be included in the Library's financial statements include oversight responsibility, scope of public service and special financing relationships. Accordingly, the financial statements of the Library contain all Library funds that are controlled by or dependent upon the Library's executive branch.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both the Library as a Whole and its individual fund financial statements.

Government-Wide Financial Statements

The Library's Government Wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The balance sheet includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts; invested in capital assets, restricted for building improvements, and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Amounts reported as program revenue include charges to patrons for the use of various Library assets and replacement, service, and damage fees.

Fund Financial Statements

The Library's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007**

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following governmental funds:

General Fund – This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes and other intergovernmental revenues.

Building Improvements Fund – This fund is used to account for major additions to the current physical plant and other major acquisitions. Revenues are derived from general donations specifically earmarked for building improvements.

Budgets and Budget Accounting

The Library adopts a budget for its governmental type fund as required by Public Act 621 of the State of Michigan. The Library follows these procedures in establishing the budget as reflected in the financial statements:

1. In November or December, the Library Board prepares a preliminary budget for the ensuing fiscal year.
2. During February, the budget is legally enacted through passage of a resolution. Amendments to the budget can be made during the fiscal year, if necessary, by a simple majority vote of the Library Board.
3. The budget is adopted on a basis consistent with the modified accrual method of accounting.

The Library adopted its budget for the year ended February 28, 2007 at its February 9, 2006 meeting. The last amendment to the budget was made on January 11, 2007. A statement of revenues and expenditures compared to budget for the year is included on pages 21 and 22.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007**

Note 1 - Summary of Significant Accounting Policies (continued)

All funds have positive fund balances at February 28, 2007.

Encumbrance System

The Library does not use an encumbrance system.

Cash and Cash Equivalents

For the purposes of the balance sheet classification, the Library considers all money market accounts and certificates of deposits with maturities of three months or less when purchased to be cash equivalents.

Cash and Deposits

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the Library or by its agent in the Library's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Library's name.

Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, \$ 109,419 of the Library's cash deposits are classified as Category 3, and the remainder is classified as Category 1.

Capital Assets - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year and a purchased cost of \$ 3,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Leasehold improvements, furniture and equipment, and library books, periodicals, and videos are depreciated using the straight-line method over the following lives:

Leasehold improvements	20 - 40 years
Furniture and equipment	5 - 30 years
Library books and audiovisual materials	6 years

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007**

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

The Library Director may accrue up to 160 hours of annual leave time. These hours can be carried into the following year. These types of compensated absences are typically used for vacation purposes. Sick time is earned at a rate of 5 days per year and may be accumulated. Unused sick time is not compensated to employees at termination or retirement.

Property Taxes

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls on March 1. The total tax levy was based on a millage rate of .45 and total State Taxable Valuation of approximately \$ 432,433,497.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

Note 2 - Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act 196, Public Acts of 1998 (effective December 30, 1998), states the Library, by resolution, may authorize the Chief Fiscal Officer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the Act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States Government or Federal Agency obligation repurchase agreements.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007**

Note 2 - Legal or Contractual Provisions for Deposits and Investments (continued)

- e. In bankers' acceptances of United States banks.
- f. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686.54 Stat. 739, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.11 to 129.118.
- j. Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Certain other restrictions also apply including a requirement for the Board of Directors to formally adopt an Investment Policy which includes specified matters.

**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007**

Note 3 - Capital Assets

Capital asset activity of the Library was as follows:

	Balance March 1, 2006	Additions	Adjustments and Deletions	Balance February 28, 2007
Capital Assets:				
Leasehold improvements	\$ 498,074	\$ -	\$ -	\$ 498,074
Furniture and equipment	137,961	-	(812)	137,149
Library collection	297,650	17,566	(19,735)	295,481
Total	<u>\$ 933,685</u>	<u>\$ 17,566</u>	<u>\$ (20,547)</u>	<u>\$ 930,704</u>
Accumulated depreciation and amortization				
Leasehold improvements	\$ 92,446	\$ 13,343	\$ -	\$ 105,789
Furniture and Equipment	65,183	6,798	(449)	71,532
Library collection	239,642	16,918	(13,739)	242,821
Totals	<u>\$ 397,271</u>	<u>\$ 37,059</u>	<u>\$ (14,188)</u>	<u>\$ 420,142</u>

Depreciation and amortization for the year ended February 28, 2007 amounted to \$ 37,059. The Library has only one program and therefore there is no allocation necessary for the Statement of Activities.

Note 4 - Commitments

The Library has entered into a lease with the Village of Elk Rapids on July 20, 1998 for the use of premises located at 300 Noble, Elk Rapids, Michigan (commonly known as the "Island House"). The lease calls for annual lease payments of one dollar (\$ 1.00) and other good and valuable consideration. The term of the lease is for forty (40) years and does not provide for automatic renewal or extension of the lease; but the parties may, on a voluntary basis, agree to extend or renew the lease upon such terms and provisions as shall be negotiated in the future.

The Library has entered into a non-cancelable operating lease for the use of a Xerox copier/printer/scanner. The lease began on August 12, 2002 and requires sixty (60) monthly payments of \$ 59.16. The lease expense for the fiscal year ended February 28, 2007 was \$ 1,011. Remaining lease obligation is as follows:

2007-08	<u>\$ 396</u>
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**ELK RAPIDS DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007**

Note 5 - Risk Management

The Library carries insurance coverage for property damage, liability, wrongful acts and crime claims. Also, the Library has purchased from a commercial carrier worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 6 - Fund Balance Designations

The Library has established a reserve for future unemployment costs in that they are a reimbursing employer with the Michigan Unemployment Security Commission. The District Library only pays after someone has filed a claim for unemployment compensation. No additional accrual was made during the fiscal year as the current reserve of \$ 5,000 appears to be adequate to handle potential claims.

Note 7 - Deferred Compensation Plan

During the 2004/2005 fiscal year, the Board instituted a 403(b) retirement plan for the Library director. The plan is administered by Capital Bank and Trust Company who has designated Prime Vest Financial Services as its agent. The plan allows the director to defer a portion of her salary until future years. The Library has elected to contribute 5% of eligible compensation to this plan. Total Library contributions were \$ 1,935 for the year ended February 28, 2007.

All amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries.

ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2007
(Page 1 of 2)

Revenues	Original Budget	Final Budget	Actual	Variance (Unfavorable) Favorable
Intergovernmental				
- Elk Rapids Township	\$ 80,000	\$ 82,749	\$ 82,749	\$ -
- Milton Township	105,000	104,941	104,941	-
- State Aid	-	4,095	4,095	-
- Penal Fines	13,000	16,198	16,198	-
Contract Fees - Torch Lake Township	3,500	-	3,500	3,500
Book Fines	1,500	1,500	1,627	127
Replacement card	100	99	108	9
Copier Fees	350	492	523	31
Interest - bank account	4,500	8,800	8,698	(102)
ILL Fees	100	125	136	11
Donations	4,000	10,252	10,193	(59)
Note cards	-	30	30	-
Non-resident Fees	400	444	454	10
Transfer from Fund Equity	27,700	-	-	-
Miscellaneous Income	100	27	64	37
Book Purchase/Replacement	1,000	763	819	56
Total Revenues	<u>\$ 241,250</u>	<u>\$ 230,515</u>	<u>\$ 234,135</u>	<u>\$ 3,564</u>

Expenditures

Supplies				
Library	\$ 4,000	\$ 2,000	\$ 1,778	\$ 222
Office	2,000	2,300	2,281	19
Cleaning	1,000	1,000	738	262
Other	100	100	3	97
Books and Audio Tapes	25,000	20,000	17,834	2,166
Rental Books and Tapes	7,000	5,500	5,234	266
Video Tapes	1,200	1,200	1,152	48
Periodicals	5,000	4,400	4,028	372
Insurance:				-
General	4,000	3,110	3,082	28
Workers Comp	400	421	382	39
Utilities:				-
Water	600	550	462	88
Natural Gas	5,000	3,200	2,310	890
Telephone	2,000	2,000	1,737	263
Internet Service	1,500	1,200	1,100	100

ELK RAPIDS DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2007
(Page 2 Of 2)

<u>Expenditures (continued)</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable) Favorable</u>
Accounting and Legal	5,500	4,000	3,870	130
Contracts/MMLL	3,500	2,575	2,553	22
Technical Support	5,000	3,700	3,700	-
Postage	1,500	1,500	1,311	189
Printing:				-
Publicity	300	300	168	132
Other	300	300	-	300
Programs:				-
Childrens Reading	1,500	1,000	645	355
Volunteers	500	163	162	1
Board of Trustees	700	607	606	1
Adult	1,000	500	415	85
Mileage	500	100	57	43
Maintenance:				-
Building Facilities	30,000	10,000	7,956	2,044
Xerox	1,500	1,200	1,011	189
Capital Outlay:				-
Technology	2,000	1,000	252	748
Furniture	2,500	2,000	1,949	51
Other	4,000	1,000	401	599
Education	1,000	100	35	65
Payroll:				-
FICA	6,200	6,200	5,870	330
Medicare	1,450	1,450	1,373	77
Gross	100,000	100,000	95,357	4,643
Pension	2,000	2,000	1,935	65
Health Insurance	8,500	6,700	6,636	64
Miscellaneous	3,000	400	398	2
Contingency	-	36,739	-	36,739
Total Expenditures	<u>\$ 241,250</u>	<u>\$ 230,515</u>	<u>\$ 178,781</u>	<u>\$ 51,734</u>
<u>Excess (Deficiency) Revenue Over Expenditures</u>	\$ -	\$ -	\$ 55,354	<u>\$ (48,170)</u>
 Fund Balance - Beginning of Period	 <u>144,320</u>	 <u>144,320</u>	 <u>144,320</u>	
 <u>Fund Balance - End of Period</u>	 <u><u>\$ 144,320</u></u>	 <u><u>\$ 144,320</u></u>	 <u><u>\$ 199,674</u></u>	

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

July 12, 2007

Board of Trustees
Elk Rapids District Library
Elk Rapids, Michigan

In planning and performing our audit of the financial statements of Elk Rapids District Library as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Elk Rapids District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the governmental unit's internal controls. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

During our audit, it became apparent that there is a lack of segregation of duties within the Library's accounting function. This was particularly evident during our review of the duties that are performed by Library management.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Board of Trustees
Elk Rapids District Library
July 12, 2007
Page (2)

The software system used to account for the cost of the Library's resource collection has been producing inconsistent results in reporting the total costs, acquisitions, and dispositions of various collection items. These inconsistencies may, in the future, cause the Library to have materially inaccurate reports as to the total cost and activity within the collection. The cause for these inconsistencies needs to be identified and corrected by the software writer. It is imperative that the Library continues to monitor the NuGen Software as it relates to its accounting function. This should be an area of concern of the Board of Directors and the Library management.

Other Matters for Consideration

Uniform Chart of Accounts

The Board should adopt the Uniform Chart of Accounts for Counties and Local Units of Government in Michigan issued by the Michigan Department of Treasury so that the Library will be in compliance with Act 2 of 1968 and Act 71 of 1919.

This communication is intended solely for the information and use of management, Board of Directors of Elk Rapids District Library, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

KILCHER, VANDERKAM & TOBZEY, P.C.

Certified Public Accountants

July 12, 2007